

CHARITON MUNICIPAL WATERWORKS  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENT  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2014

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# CHARITON MUNICIPAL WATERWORKS

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
Roger Bingham	Chairman	December 31, 2017
Shelly Lenzine	Vice-Chairman	December 31, 2013
Evelyn Hull	Secretary	December 31, 2016
George Holder*	Trustee	December 31, 2015
Bob Stump	Trustee	December 31, 2014
Jim Burbridge**	Trustee	December 31, 2015
Bruce Hamersley***	Superintendent	Indefinite
Duane Covington****	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite
<b>(After January 2014)</b>		
Roger Bingham	Chairman	December 31, 2017
Shelly Lenzine	Vice-Chairman	December 31, 2019
Evelyn Hull	Secretary	December 31, 2016
Bob Stump	Trustee	December 31, 2014
Jim Burbridge	Trustee	December 31, 2015
Duane Covington	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite

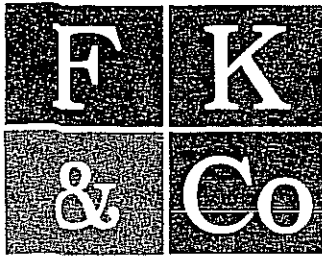
\* - Deceased August, 2013.

\*\* - Appointed November, 2013.

\*\*\* - Retired August, 2013.

\*\*\*\* - Appointed October, 2013.

Chariton Municipal Waterworks



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Chariton Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, Iowa (Waterworks), as of and for the year ended June 30, 2014, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Chariton that is attributable to the transactions of the Waterworks. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and 18 through 19 has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2015, on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

Des Moines, Iowa  
February 2, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Chariton Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

### 2014 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks decreased 11.0%, or approximately \$261,000, from fiscal year 2013 to fiscal year 2014.

Disbursements increased 14.4%, or approximately \$300,000, from fiscal year 2013 to fiscal year 2014.

The Waterworks total cash basis fund balances decreased 23.4%, or approximately \$276,000, from June 30, 2013 to June 30, 2014.

The decrease in receipts is due primarily to \$286,497 monies received from a litigation settlement in fiscal year 2013.

### USING THIS ANNUAL REPORT

The Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year.

Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2014.

## FINANCIAL ANALYSIS OF THE WATERWORKS

### *Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

The purpose of the statement is to present the receipts received by the Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Waterworks' financial position by analyzing the increase and decrease in cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, meter fees, a litigation settlement, taps and miscellaneous fees. The City of Chariton pays the Waterworks contract fees to include sewer charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2014 and June 30, 2013 are presented below:

Changes in Cash Balances		
	Year ended June 30,	
	2014	2013
<b>Receipts:</b>		
Use of money and property	\$ 13,020	12,492
Charges for service	1,185,026	1,190,835
Miscellaneous	49,945	23,813
Litigation settlement	-	286,497
Sewer rental and storm water fees collected for City	856,172	851,238
Total receipts	2,104,163	2,364,875
<b>Disbursements</b>		
Plant operation and maintenance	404,658	300,778
Distribution expenses	358,862	262,060
Accounting and collection	176,935	168,348
Administration and other expenses	174,623	182,854
Capital improvements	47,261	32,042
Sewer rental and storm water fees remitted to City	856,172	851,238
Debt service:		
Principal paid	148,000	168,000
Interest and service fees paid	34,561	38,395
Capital outlay	178,729	76,378
Total disbursements	2,379,801	2,080,093
Net change in cash balance	(275,638)	284,782
Cash balance beginning of year	1,175,802	891,020
Cash balance end of year	\$ 900,164	1,175,802
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Customer water deposits	\$ 100,795	95,919
Bond principal and interest payments	14,983	15,214
Bond reserve	108,500	108,500
Total restricted cash basis fund balance	224,278	219,633
Unrestricted	675,886	956,169
Total cash basis fund balance	\$ 900,164	1,175,802



The Waterworks' unrestricted cash balance is available for use in routine operations of the plant, distribution and administrative areas of the Waterworks and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution. The Waterworks' restricted cash balances are for the repayment the revenue bonds, a required bond reserve, and customer water deposits.

## **BUDGETARY HIGHLIGHTS**

The Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Chariton. During the fiscal year, the Waterworks amended its budget one time, increasing budgeted disbursements by \$142,000.

## **DEBT ADMINISTRATION**

At June 30, 2014, the Waterworks had \$978,000 in revenue bonds outstanding, compared to \$1,126,000 last year.

## **ECONOMIC FACTORS**

The Waterworks' appointed officials considered many factors when setting the fiscal year 2015 budget, including water main replacements, upkeep of current mains, plant and distribution improvements, and fees that will be charged. Current economic conditions beyond the Waterworks' Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, lakes, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and lake protection requirements.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

The current drought conditions present a challenge for the Waterworks, both in terms of the adequacy of, and the quality of the water supply.

## **CONTACTING THE WATERWORKS FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Waterworks Superintendent, 101 Albia Road, Box 866, Chariton, IA 50049.

## Financial Statement

CHARITON MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN CASH BALANCE

As of and for the year ended June 30, 2014

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 1,185,026
Miscellaneous	49,945
Total operating receipts	<u>1,234,971</u>
Operating disbursements:	
Business type activities	<u>1,162,339</u>
Total operating disbursements	<u>1,162,339</u>
Excess of operating receipts over operating disbursements	<u>72,632</u>
Non-operating receipts (disbursements):	
Interest on investments	2,278
Rental income	10,742
Sewer rental and storm sewer fees collected for City	856,172
Sewer rental and storm sewer fees remitted to City	(856,172)
Debt service	(182,561)
Capital outlay	(178,729)
Net non-operating receipts (disbursements)	<u>(348,270)</u>
Change in cash balance	(275,638)
Cash balance beginning of year	<u>1,175,802</u>
Cash balance end of year	<u>\$ 900,164</u>
<b>Cash Basis Fund Balance</b>	
Restricted for:	
Customer water deposits	\$ 100,795
Bond principal and interest payments	14,983
Bond reserve	108,500
Total restricted cash basis fund balance	<u>224,278</u>
Unrestricted	<u>675,886</u>
Total cash basis fund balance	<u>\$ 900,164</u>

See notes to financial statement.

# CHARITON MUNICIPAL WATERWORKS

## NOTES TO FINANCIAL STATEMENT

June 30, 2014

### Note 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

The Chariton Municipal Waterworks (Waterworks) is a component unit of the City of Chariton, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

#### B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

#### C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

#### D. Fund Balance

Funds set aside for customer water deposits, bond principal and interest payments, and bond reserve monies are classified as restricted.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

### Note 2. Cash and Pooled Investments

The Waterworks' deposits at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 3. Water Revenue Bonds Payable

Annual debt service requirements to maturity for the water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 39,000	15,240	110,000	14,285	149,000	29,525
2016	40,000	14,070	115,000	11,425	155,000	25,495
2017	40,000	12,870	120,000	8,090	160,000	20,960
2018	41,000	11,670	125,000	4,250	166,000	15,920
2019	41,000	10,440	-	-	41,000	10,440
2020	42,000	9,210	-	-	42,000	9,210
2021	43,000	7,950	-	-	43,000	7,950
2022	43,000	6,660	-	-	43,000	6,660
2023	44,000	5,370	-	-	44,000	5,370
2024	45,000	4,050	-	-	45,000	4,050
2025	45,000	2,700	-	-	45,000	2,700
2026	45,000	1,350	-	-	45,000	1,350
	<u>\$ 508,000</u>	<u>101,580</u>	<u>470,000</u>	<u>38,050</u>	<u>978,000</u>	<u>139,630</u>

Water Revenue Bonds

On August 7, 2006, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$800,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2007 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

The Waterworks net receipts were less than the required 110% of bond principal and interest due during the fiscal year.

Note 3. Water Revenue Bonds Payable (continued)

Water Revenue Improvement and Refunding Bonds

The resolutions providing for the issuance of the water revenue improvement and refunding bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) A reserve fund shall be established and maintained in the amount of \$108,500.
- (c) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 125% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (d) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (e) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

The Waterworks net receipts were less than the required 125% of bond principal and interest due during the fiscal year.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$800,000 in water revenue bonds issued in 2006, and \$1,085,000 in water revenue improvement and refunding bonds issued in 2009. Proceeds from the bonds provided financing for the construction of water main replacements, and to refund an older debt issue. The bonds are payable solely from water customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,117,630. For the current year, principal and interest paid and total customer net receipts were \$181,195 and \$72,632, respectively.

Note 4. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the Waterworks is required to contribute 8.93% of covered salary. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$36,080, \$25,713 and \$27,793, respectively, equal to the required contributions for each year.

Note 5. Other Postemployment Benefits

Plan Description – The City of Chariton operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. The Waterworks' employees are part of the City of Chariton's insurance policy. The City bills the Waterworks for its share of the health benefit plan costs. There are 9 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

Note 5. Other Postemployment Benefits (continued)

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$461.20 for single coverage, \$968.52 for employee/spouse coverage, and \$876.28 for employee/children coverage. For the year ended June 30, 2014, the Waterworks contributed \$67,712 and plan members eligible for benefits contributed \$7,217 to the plan.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2014 is \$25,885. The liability has been computed based on rates of pay in effect at June 30, 2014.

The Waterworks policy allows employees who retire at age 55 or older to receive pay for unused sick leave, up to a maximum of 960 hours. The hourly rate of pay used for the payment of unused sick leave would be the hourly pay in effect at the date of retirement. Currently, only two Waterworks employees are age 55 or older. However, all employees are eligible for this benefit if they retire from the Waterworks at age 55 or older, and have unused sick leave hours on the date of retirement. Based on rates of pay in effect at June 30, 2014, the unused sick leave maximum liability to the Waterworks is \$96,287 at June 30, 2014.

Note 7. Lease Agreements

The City is leasing antenna space on the water tower to USCOC of Iowa RSA #1, Inc. (tenant) for \$1,120 per month. The Waterworks and the City have signed an additional agreement which provides that the City and Waterworks will each receive one-half of the lease payments in relation to this lease. The tenant pays the City the entire lease payment, and then the City reimburses the Waterworks for one-half of this amount. The initial term of the lease began in April, 2009. The Waterworks received \$6,182 from the City in relation to this lease in fiscal year 2014, and is scheduled to receive \$560 per month from the City in relation to this lease until April, 2019, with four additional five year renewal options. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 12% over the previous year's base rent. Unless the tenant decides to terminate the lease, the City has to continue to lease the antenna space to the tenant until fiscal year 2039.

The Waterworks is leasing antenna space on the water tower to Skybeam (tenant). The initial term of the lease began in March, 2005. The Waterworks received \$4,560 from this lease in fiscal year 2014, and is scheduled to receive \$360 per month from this lease until December, 2015, with an additional five year renewal option. At the next renewal option, the Waterworks is scheduled to receive \$432 per month from this lease. Unless the tenant decides to terminate the lease, the City has to continue to lease the antenna space to the tenant until December, 2020.

Note 8. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling \$63,230 during the year ended June 30, 2014.

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Note 9. Risk Management

The Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Contingencies

The Waterworks participates in Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability of the Waterworks. The Waterworks management believes such revisions or disallowances, if any, will not be material to the Waterworks.

The Waterworks is not in compliance with its revenue bond loan agreements as documented in Note 3 above. The Waterworks' management believes that the potential liability as a result of this noncompliance will not be material to the Waterworks.

The Waterworks is currently using a computer operating system that is no longer supported by the manufacturer. The manufacturer is no longer providing security updates for the computer operating system used by the Waterworks. As a result, there is an increased risk that the Waterworks data on the computer system will be compromised, either through theft of the data by an outside party or by data corruption. The potential liability to the Waterworks as a result of the use of a computer operating system no longer supported by the manufacturer is unknown.

Note 11. Subsequent Events

The Waterworks has evaluated subsequent events through February 2, 2015, which is the date that the financial statement was available to be issued.

Note 12. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.



## Other Information

# CHARITON MUNICIPAL WATERWORKS

## BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE - BUDGET AND ACTUAL (CASH BASIS)

### OTHER INFORMATION

Year ended June 30, 2014

	Budgeted Amounts			Final to Actual Variance
	Actual	Original	Final	
Receipts:				
Use of money and property	\$ 13,020	12,500	12,500	520
Charges for service	2,041,198	2,277,500	2,277,500	(236,302)
Miscellaneous	49,945	15,250	15,250	34,695
Total receipts	2,104,163	2,305,250	2,305,250	(201,087)
Disbursements:				
Business type activities	2,379,801	2,305,250	2,447,250	67,449
Excess (deficiency) of receipts over (under) disbursements	(275,638)	\$ -	(142,000)	(133,638)
Cash balances beginning of year	1,175,802			
Cash balances end of year	\$ 900,164			

See accompanying independent auditor's report.

## CHARITON MUNICIPAL WATERWORKS

### NOTES TO OTHER INFORMATION - BUDGETARY REPORTING

June 30, 2014

The Chariton Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$142,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

## Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2014

	General	Customer Deposit	Debt Service	Improve- ment	Total
Operating receipts:					
Charge for service:					
Sale of water to meter customers	\$1,136,512	-	-	-	1,136,512
Sales of water - tank service	6,646	-	-	-	6,646
Meter fee	24,088	-	-	-	24,088
Collection fee from City	12,000	-	-	-	12,000
Sale of supplies and materials	5,780	-	-	-	5,780
	<u>1,185,026</u>	-	-	-	<u>1,185,026</u>
Miscellaneous:					
Refunds and reimbursements	27,758	-	-	-	27,758
Customer deposits	-	14,525	-	-	14,525
Miscellaneous	7,662	-	-	-	7,662
	<u>35,420</u>	<u>14,525</u>	-	-	<u>49,945</u>
Total operating receipts	<u>1,220,446</u>	<u>14,525</u>	-	-	<u>1,234,971</u>
Operating disbursements:					
Business-type activities:					
Plant operation and maintenance:					
Salaries	165,960	-	-	-	165,960
Power and propane	57,025	-	-	-	57,025
Chemicals	146,560	-	-	-	146,560
Supplies	14,908	-	-	-	14,908
Telephone	1,928	-	-	-	1,928
Security cameras	983	-	-	-	983
Miscellaneous and safety	3,375	-	-	-	3,375
Maintenance material	13,566	-	-	-	13,566
Maintenance labor	353	-	-	-	353
	<u>404,658</u>	-	-	-	<u>404,658</u>
Distribution expenses:					
Salaries	140,119	-	-	-	140,119
Vehicle expense	30,119	-	-	-	30,119
Insurance	30,368	-	-	-	30,368
Supplies	7,315	-	-	-	7,315
Utilities	13,409	-	-	-	13,409
Telephone	2,566	-	-	-	2,566
Miscellaneous and safety	1,550	-	-	-	1,550
Maintenance material	115,476	-	-	-	115,476
Maintenance labor	17,940	-	-	-	17,940
	<u>358,862</u>	-	-	-	<u>358,862</u>

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2014

	General	Customer Deposit	Debt Service	Improve- ment	Total
Operating disbursements (continued):					
Business type activities (continued):					
Accounting and collection:					
Salaries	91,726	-	-	-	91,726
Meter reading	6,232	-	-	-	6,232
Office supplies	2,427	-	-	-	2,427
Sales tax	51,904	-	-	-	51,904
Postage	12,126	-	-	-	12,126
Telephone	2,859	-	-	-	2,859
Utilities	4,259	-	-	-	4,259
Miscellaneous and safety	5,402	-	-	-	5,402
	176,935	-	-	-	176,935
Administration and other expenses:					
Engineering and legal	566	-	-	-	566
Employee benefits	141,328	-	-	-	141,328
Audit and filing fee	4,978	-	-	-	4,978
Miscellaneous and safety	15,535	-	-	-	15,535
Building expense	2,565	-	-	-	2,565
Customer deposits	-	9,651	-	-	9,651
	164,972	9,651	-	-	174,623
Capital improvements:					
Meters	47,261	-	-	-	47,261
	47,261	-	-	-	47,261
Total operating disbursements	1,152,688	9,651	-	-	1,162,339
Excess of operating receipts over operating disbursements	67,758	4,874	-	-	72,632

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2014

	General	Customer Deposit	Debt Service	Improve - ment	Total
Non-operating receipts (disbursements):					
Interest on investments	305	2	-	1,971	2,278
Rental income	10,742	-	-	-	10,742
Sewer rental and storm sewer fees collected for City	856,172	-	-	-	856,172
Sewer rental and storm sewer fees remitted to City	(856,172)	-	-	-	(856,172)
Debt service:					
Principal redemption	-	-	(148,000)	-	(148,000)
Interest paid	-	-	(33,195)	-	(33,195)
Service fees	-	-	(1,366)	-	(1,366)
Capital outlay	(178,729)	-	-	-	(178,729)
Total non-operating receipts (disbursements)	(167,682)	2	(182,561)	1,971	(348,270)
Excess (deficiency) of receipts over (under) disbursements	(99,924)	4,876	(182,561)	1,971	(275,638)
Operating transfers in (out)	-	-	182,330	(182,330)	-
Net change in cash balances	(99,924)	4,876	(231)	(180,359)	(275,638)
Cash balances beginning of year	309,227	95,919	123,714	646,942	1,175,802
Cash balances end of year	\$ 209,303	100,795	123,483	466,583	900,164

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2014

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	08-07-06	3.00%	\$ 800,000
Water Revenue Improvement and Refunding Bonds	10-29-09	1.30%-3.40%	1,085,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
08-07-06	\$ 546,000	-	38,000	508,000	16,380	-
10-29-09	580,000	-	110,000	470,000	16,815	-
Total	\$ 1,126,000	-	148,000	978,000	33,195	-

See accompanying independent auditor's report.



CHARITON MUNICIPAL WATERWORKS

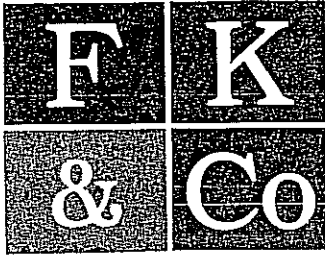
Schedule 3

BOND MATURITIES

June 30, 2014

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		
	Issued August 7, 2006		Issued October 29, 2009		
	Interest Rates	Amount	Interest Rates	Amount	Total
2015	3.00%	\$ 39,000	2.60%	\$ 110,000	149,000
2016	3.00%	40,000	2.90%	115,000	155,000
2017	3.00%	40,000	3.20%	120,000	160,000
2018	3.00%	41,000	3.40%	125,000	166,000
2019	3.00%	41,000	-	-	41,000
2020	3.00%	42,000	-	-	42,000
2021	3.00%	43,000	-	-	43,000
2022	3.00%	43,000	-	-	43,000
2023	3.00%	44,000	-	-	44,000
2024	3.00%	45,000	-	-	45,000
2025	3.00%	45,000	-	-	45,000
2026	3.00%	45,000	-	-	45,000
		<u>\$ 508,000</u>		<u>\$ 470,000</u>	<u>978,000</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the  
Chariton Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Chariton Municipal Waterworks, Chariton, Iowa (Waterworks), as of and for the year ended June 30, 2014, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated February 2, 2015. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express our opinion on the effectiveness of the Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B) and (C) to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC  
Certified Public Accountants

Des Moines, Iowa  
February 2, 2015

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2014

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, some bank accounts are not reconciled by an individual who does not sign checks, handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Chariton Municipal Waterworks (Waterworks) should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including appointed officials.

Response – We will consider this.

Conclusion – Response acknowledged. The Waterworks could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Board of Trustee members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles.

Conclusion – Response acknowledged.

- (C) Computer Operating System – The Waterworks is currently using a computer operating system that is no longer supported by the manufacturer. As a result, there is an increased risk that the Waterworks data could be compromised, either through theft or through corruption.

Recommendation – The Waterworks should update its computer operating system to ensure the operating system used is supported by the manufacturer.

Response – We will upgrade our computer operating system.

Conclusion – Response acknowledged.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2014

**INSTANCES OF NONCOMPLIANCE:**

No matters were reported.

# CHARITON MUNICIPAL WATERWORKS

## SCHEDULE OF FINDINGS

Year ended June 30, 2014

### Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - The budget certified by the City of Chariton includes amounts budgeted for the Chariton Municipal Waterworks (Waterworks). Disbursements during the year ended June 30, 2014, did not exceed the amounts budgeted.
- (2) Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Hy-Vee	Gift cards for employees	\$ 400
	Flowers for funeral	25

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

In addition, according to IRS Publication 15-B and Publication 535, the gift cards given to some Waterworks employees would be considered a taxable event, subject to income and employment taxes. However, the Waterworks did not include the value of gift cards as income to the employee or withhold taxes, as required.

Recommendation – The Waterworks should determine and document the public purpose served by these disbursements before authorizing any further payments. If these disbursements are continued, the Waterworks should establish written policies and procedures, including the requirement for proper documentation. In addition, in the future, all employee taxable compensation, including the value of gift cards given to employees, should be included in the employees' income and be subject to applicable payroll taxes.

Response – We will review this issue.

Conclusion – Response acknowledged.

- (3) Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- (4) Business Transactions - Business transactions between the Waterworks and Waterworks' officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Savage, Employee, Son Owns Savage Dirt Works	Construction services	\$ 10,619
Mark Savage, Employee Brother Owns ARS Construction	Construction services	52,611

# CHARITON MUNICIPAL WATERWORKS

## SCHEDULE OF FINDINGS

Year ended June 30, 2014

In accordance with Chapter 362.5 of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year as some services were not competitively bid.

Recommendation – The Waterworks should consult legal counsel to determine the disposition of this matter.

Response – We will consult with our Attorney.

Conclusion – Response acknowledged.

- (5) Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- (6) Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.

The Waterworks went into closed session on May 12, 2014. The trustees' minute record did not document the session was closed by affirmative roll call of at least two-thirds of the members of the Board of Trustees as required by Chapter 21.5 of the Code of Iowa, commonly known as the open-meetings law.

The annual wage increases for all Waterworks employees were based on a specific amount per hour. The actual approved hourly wage rates were not indicated in the trustee minutes.

Recommendation – The Waterworks should comply with Chapter 21 of the Code of Iowa. In addition, the wages of Waterworks employees should be adequately documented in the trustee minutes.

Response – We will implement these recommendations.

Conclusion - Response acknowledged.

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.

- (8) Revenue Notes and Bonds – The following instances of non-compliance with the water revenue bond requirements are as follows.

The Waterworks Water Revenue Bonds resolution, Section 8, requires the “.... water system to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond and any other obligations secured by a pledge of the net revenues falling due in the same year...”

The Waterworks Water Revenue Improvement and Refunding Bonds resolution, Section 6, requires the Waterworks to “.... produce gross revenues ... and to leave a balance of net revenues equal to at least 125% of the average annual payments of principal and interest on all the bonds .... “

The Waterworks fiscal year 2104 net water operating income of \$72,632 is less than 110% and 125% of the \$181,195 of water revenue bond principal and interest due during fiscal year 2014.

## CHARITON MUNICIPAL WATERWORKS

### SCHEDULE OF FINDINGS

Year ended June 30, 2014

Recommendation – In the future, the Waterworks should ensure that the water revenue bond resolutions are met. The Waterworks should also consult with bond counsel to determine the disposition of this matter.

Response – We increased our water rates in fiscal year 2015. With the increase in rates, we should be in compliance with the water revenue bond resolutions in fiscal year 2015.

Conclusion – Response acknowledged.

- (9) Delinquent Accounts – The Waterworks has not turned over delinquent accounts to either the collection agency or to the County Treasurer in several years. At June 30, 2014, delinquent Waterworks customer accounts over 90 days old totaled \$113,872.

Recommendation – The Waterworks should consider turning over delinquent accounts to either the collection agency or to the County Treasurer for collection. In addition, the Waterworks should implement procedures to more aggressively collect delinquent amounts due to the Waterworks.

Response – We will look into this in the future.

Conclusion – Response acknowledged.

- (10) Construction Bond – The Waterworks contracted with a local company for a bid price of \$37,626 to construct a new storage building for the Waterworks. The Waterworks did not require the contractor to provide a surety bond for this project, even though a surety bond is required pursuant to Chapter 573.2 of the Code of Iowa.

Recommendation – In the future, the Waterworks should implement procedures to ensure compliance with Chapter 573 of the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (11) Utility Rates – Chapter 384.84 of the Code of Iowa requires that water rates be established by resolution of the trustees, published in the same manner as an ordinance. However, the customer deposit amount and some of the miscellaneous water fees charged by the Waterworks were established by a motion of the trustees and not by resolution, even though it appears a resolution is required.

Recommendation – The Waterworks should establish all water rates by resolution, and publish them in the same manner as an ordinance, as required by the Code of Iowa.

Response – We will establish all of the water utility rates by resolution of the trustees, and publish them accordingly.

Conclusion – Response acknowledged.



CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2014

- (12) Computer System – The Waterworks does not have a written disaster recovery plan in case of computer failure or destruction.

Recommendation – The Waterworks should develop written policies in relation to a computer system disaster recovery plan.

Response – We will review this and take action as necessary.

Conclusion – Response acknowledged.